

# CAA

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CHARTERED  
ACCOUNTANTS  
ACADEMY



# VAT – Part 1

# LEARNING OUTCOMES

- To understand the basic principle behind VAT
- To understand the section 6 and the driving principles in the levying of VAT.
- To appreciate deemed supplies
- To classify the different types of supplies into Standard rated, zero rated and exempt.
- To understand the value of supply and time of supply concepts.
- To understand input taxes – Part 2

# VAT CONCEPT

- “A **value added tax (VAT)** is a consumption tax added to a product's sales price. It represents a tax on the "value added" to the product throughout its production process”

# VAT FORMULA

Total Output VAT	xxx
Less: Total Input VAT	<u>(xxx)</u>
VAT Payable/Refundable	<u>XXXX</u>

# VALUE ADDED TAX – SECTION 6

There shall be charged levied and collected, a tax on the value of:

- a. The **supply** by any **registered operator** of **goods or services**, supplied by him on or after the **fixed date** in the course or furtherance of any **trade** carried on by him. **NB This shall not apply to supply of second hand motor vehicles**; and
- b. The **importation of any goods** into Zimbabwe by any person on or after the fixed date; and
- c. The supply of any **imported services** by any person on or after the fixed date; and
- d. Goods and services sold through an auctioneer(s56) by persons who are not registered operators

## DISCUSS WHETHER VAT SHOULD BE LEVIED ON THE TRANSACTIONS BELOW

- Sale of fish by OK Zimbabwe?
- Sale of fish by Ben, a sole trader and registered operator who had gone fishing with his family and his neighbour has offered to buy the fish for \$20?
- Donation of fish with a market value of \$20 by Ben to his good neighbour which fish he had ordered as inventory from Lake Harvest?
- Sale of fish by Ben (a non-registered operator) who ordered fish from Lake Harvest for home consumption but sold it to a cousin who was passing through Harare.

# VAT Section 6

## 1. What is a supply?

The definition of a supply is not concise – “includes all forms of supply, irrespective of where the supply is effected and any derivative of “supply” shall be construed accordingly. Obviously this casts a net very wide in terms of what a supply is.

## 2. What is a registered operator?

A person who is or is required to be registered by the VAT Act.

## 3. What are goods or services?

**Goods** – corporeal movable things, fixed property and any real right in any such things or fixed property. Take note of **exclusions**

**Services** – anything done or to be done, including the granting or assignment, cession or surrender of any right or the making available of any facility or advantage, but excludes the supply of goods, money or any stamp as contemplated in para (c) of definition of goods



## VAT Section 6

### 4. What is the fixed date?

The date of commencement of the VAT Act in Zimbabwe, being .....???

### 5. What is Trade?

The definition in the VAT Act is a long one. This is a very important definition as it scopes in or out a lot of supplies for VAT purposes.

# A FEW KEY ISSUES ABOUT THE DEFINITION OF TRADE

## **INCLUDES:**

- 1. Continuous or regular** carrying out of the activity; and
- Person carrying out the trade must be carrying it out in Zimbabwe or partly in Zimbabwe; and
- For a **consideration**
- Whether or not for profit**

## **EXCLUDES:**

- **Hobbies**
- **Employment**
- Supplies to an **independent branch outside Zimbabwe**. Accounting system must be separate.
- **Exempt supplies**

# Example

- FM Ministries is a church situated in Greendale. As part of fundraising for church activities, the church has been selling baked goods for the past 4 months to congregants **only**. The church purchased all the inputs for the baked goods. In the 4 months they have managed to make sales of \$30,000. The church's accountant is of the opinion that the church is not subject to VAT, given that they were only selling to congregants, and they are a charitable/not for profit organisation.
- In your opinion, is the statement by the accountant correct?

# CLASSIFYING SUPPLIES Section 10 & 11

## Zero rated supplies – section 10 (0% Vat)

- They are taxable supplies.
- No empirical rule to determine them but generally this concession of zero rating is on supplies likely to stimulate economic growth such as:
  - Exports and a number of transactions to do with export countries;
  - Supplies on temporary imports;
  - Supply of Business as a going concern;
  - Specified Drugs;
  - Supply of gold to specified institutions;
  - Supply of agricultural inputs to farmers
  - Common bricks
  - **Basic commodities**

# CLASSIFYING SUPPLIES Section 10 & 11

## Exempt Supplies Section 11

- Not subject to VAT. They are excluded from the definition of **trade**;
- The suppliers do not register for VAT;
- Examples:
- Financial Services;
- Educational Services;
- Transport for fare paying passengers;
- Supplies by an association not for gain of goods;
- Medical services;
- Supply of goods and services by an employee organisation to its members to the extent that consideration of supply is limited to membership contributions;
- Supply of fuel and fuel products
- Supply of residential accommodation in a dwelling under a lease or hire agreement.

# VALUE AND TIME OF SUPPLY (Sections 8 & 9)

- Time of supply rules determine when a Taxpayer should account for any output tax applicable for a taxable supply.
- Generally – the earlier of an invoice being issued or payment being made.
  
- Value of supply
- Where the consideration is in money, the value is the consideration less VAT
- Where the consideration is not in money, the OMV becomes the consideration
- For special supplies both the TOS and VOS are varied:
- Goods supplied under rental agreements
- Instalment credit agreements
- Sales to connected persons
- Goods applied to own use

## IMPORTED GOODS AND SERVICES (Section 12 & 13)

- **Imported goods**
- For consumption in Zimbabwe
- Import VAT to the extent that they are not exempt supplies.
- $\text{Tax Rate} \times \text{Value for tax purposes} = \text{Import VAT}$
- $\text{Value for Tax Purposes} = \text{Value for duty purp} + \text{duty}$
- $\text{Value for duty purposes} = \text{CIF}$
- **Imported Services**
- The services have to be for making non-taxable supplies for VAT to be levied on them. S2 definition of imported services.
- VOS – greater of OMV or the invoice value of the service.
- VAT is payable by the recipient of the services.

## DEEMED SUPPLIES (Section 7)

- Sale in execution of debt;
- Cessation of trade by a registered operator;
- Door to door sales with an option to return; goods;
- Lay bye agreement of consideration not less than \$25;
- Supply of a business as a going concern;
- Indemnity payment under an insurance;
- Transfer of goods to independent branches;
- Goods repossessed;
- Betting services



# QUESTIONS ?